MANITOBA GAMING CONTROL COMMISSION

104-01945/

September 25, 2003

Honourable Tim Sale
Minister responsible for
The Gaming Control Act
Room 314, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

Dear Mr. Minister:

I have the honour to submit, pursuant to Section 5 of *The Gaming Control Act*, a report of proceedings under The Act for the fiscal year ended March 31, 2003.

Respectfully submitted,

Darlene Dziewit
Chair

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OUR MISSION

The Manitoba Gaming Control Commission is an independent commission created to regulate and control gaming activity in the Province of Manitoba with the aims of ensuring that the gaming activity is conducted honestly, with integrity and in the public interest.

The Commission recognizes the diversity of views with respect to gaming and will take a reasoned and balanced approach toward gaming activities in our province.

The Commission will strive at all times to treat its employees, its clients and the general public with respect, fairness and service beyond question.

Remarks from the Chair

"THE SNAPSHOT OF OUR ACTIVITIES REPORTED IN THE YEAR IN REVIEW SECTION PROVIDES THE READER WITH AN ACCOUNTING OF OUR ACTIVITIES, GOALS AND ACHIEVEMENTS."

While our fiscal year ends in March, the nature of annual report preparation means that what is begun in the spring is completed in late summer or early fall. As such, these reflective comments are being written in late August – at a time when many Manitobans are harvesting and preparing for a new season.

Similarly, many of the Manitoba Gaming Control Commission's (MGCC) 2002/03 notable activities laid the foundation for projects and initiatives that will come to fruition in the 2003/04 fiscal year. As is evidenced in the new format for this year's report, the MGCC, at the recommendation of the Office of the Auditor General of Manitoba, is moving toward more formalized strategic management. The snapshot of our activities reported in the Year in Review section provides the reader with an accounting of our activities, goals and achievements. We have also outlined the legislative and regulatory context within which we undertake these activities.

While our mandate can be succinctly described as ensuring that gaming activity is conducted honestly, with integrity and in the public interest, translating that into goals, targets and outcomes that respond to the diversity of our stakeholders' needs is complex. We hope that you find the information in this year's report to be useful and informative and anticipate building on this framework to improve reporting and accountability.

One project nearing completion is the implementation of the Gaming Management System which will improve client service, information tracking and administrative functions. An ongoing project for several years, completion of this new information system tool is scheduled for September 2003.

There is no question that accessibility by our clients is a key aspect of our regulatory responsibilities. While the MGCC's central office is located in Winnipeg, with a regional office located in Brandon, the focus of our activities lies in all of our province's communities – with individual Manitobans, charitable and religious groups, First

Nations, gaming industry employees and suppliers, players, private businesses and the beneficiaries of licensed gaming revenues.

During 2002/03, our Board, staff and management travelled a total of nearly 250,000 kilometres throughout the province to accomplish our responsibilities to these diverse stakeholders. The purpose of this travel included a series of Board driven community consultations on bingo and breakopen licensing terms and conditions, and operational activities including regular inspections, training, audits, investigations and meetings on issues ranging from Video Lottery Terminal regulations to casino operations to improved financial reporting.

Also during the past fiscal year, the Board of Commissioners completed its review of The Gaming Control Act (The Act), submitting detailed legislative proposals to the Minister responsible for The Act in early January 2003. Since the MGCC's establishment in 1997, there have been a number of changes to Manitoba's gaming environment, including increased attention to responsible gambling issues, licensing authority accountability and First Nations' gaming opportunities. Our Board's interest in pursuing these proposals through to legislative amendment in the spring session is to be proactive on emerging issues and responsive to ongoing concerns.

Other Board interests during 2002/03 include preparation for a general population survey on Manitobans' knowledge and understanding of gambling; continued support for problem gambling and impact research; and championing national initiatives related to gambling. We look forward to our continued stewardship of gaming control and accountability.

In closing, and on behalf of the Board, I would like to thank the staff and management of the MGCC for their work in service to the Board and to the citizens of Manitoba.

Darlene Dziewit
Chair

Remarks from the Executive Director

"AS A REGULATORY BODY, WE ARE WELL AWARE OF THE VALUE AND IMPORTANCE OF ACCOUNTABILITY AND TRANSPARENCY. IT IS OUR HOPE THAT MORE COMPREHENSIVE PERFORMANCE REPORTING MEASURES WILL INFORM MANITOBANS OF OUR OBJECTIVES AND OUTCOMES."

This year, for the first time, the Office of the Auditor General (OAG) of Manitoba became the auditor of record for the Manitoba Gaming Control Commission (MGCC). As in previous years, the MGCC received a clear, unqualified audit opinion of its balance sheet and the statements of operations, surplus and cash flows. Matters related to auditability and transparency are key to demonstrating our own standards of integrity; standards that we also apply to the organizations we license and monitor. Each year the OAG sets an annual corporate audit plan for the MGCC's review and concurrence. This permits us to sustain our commitment and obligation to consistent reporting and disclosure.

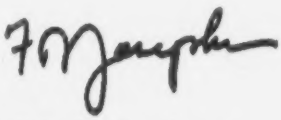
Beyond our financial reporting processes, the MGCC has also begun to develop a formal strategic plan to target, chart and measure our activities and achievements. As a regulatory body, we are well aware of the value and importance of accountability and transparency. It is our hope that more comprehensive performance reporting measures will inform Manitobans of our objectives and outcomes. As noted in Ms. Dziewit's remarks, we have taken several steps by enhancing our narrative of operational activities and achievements; the details provided in the Year in Review section highlight our covenant in this regard.

Along with this new reporting model, we have maintained our commitment to report annually on a particular area of responsibility and public interest. This year, our special section focuses on the technical integrity of gaming – a complex term that may more simply be described as engendering fair play and public trust. As recounted in this report, the complexities of current electronic gaming and the

challenges of emerging technologies meet the same tests of integrity as traditional games like bingo and raffles. The specifics of game composition and function are measured against tests of consistency, fairness and integrity. These measures translate into standards for each scheme approved for operation in Manitoba. I encourage you to read this interesting and informative report.

In publishing the section on technical integrity the MGCC is also mindful of the importance of measures to prevent problem gambling and people's awareness and understanding of how games work. Research is increasingly revealing the importance of players' understanding of gaming activities and the influence their beliefs and perceptions, and misperceptions, have on their decisions related to gambling. As such, late in the year, the MGCC committed to a cooperative multi-jurisdictional project to develop a new problem gambling measurement instrument for youth; this project complements our earlier contributions to a similar national project focused on adults. We also look forward to conducting our own research project on Manitobans' knowledge and awareness of gambling, with the goal of bolstering prevention measures through targeted information and education.

As noted earlier, the details of our operational goals, activities and achievements are outlined in the Year in Review section. The processes and outcomes described in this section highlight the critical aspects of our responsibilities to ensure gaming activities are conducted honestly, with integrity and in the public interest. Management and staff of the MGCC look forward to continuing to further our efforts and activities in pursuit of this mandate.



F.J.O. (Rick) Josephson
Executive Director

TRAINING & PROFESSIONAL DEVELOPMENT

- Two Audit staff members are working toward the completion of their Certified General Accountant designation.
- One Audit staff member achieved Certified Management Accountant designation.
- One Audit staff member achieved Certified Fraud Examiner designation.
- Staff members with professional designations or affiliations meet and maintain professional development standards.
- Several staff members participated in Organization & Staff Development training programs offered by the Manitoba Civil Service Commission in the following areas: oral and written communications skills; managing workplace and personal stress; meeting management; and writing policies, guidelines and procedures.

LEGISLATIVE AUTHORITY

The Manitoba Gaming Control Commission (MGCC) is an independent commission created by The Gaming Control Act (The Act). This Act establishes the MGCC and sets its mandate for the regulation and control of specified gaming activities in Manitoba; a copy of The Act is posted at www.mgcc.mb.ca. The MGCC reports through a Board of Commissioners to the Minister responsible for The Gaming Control Act, and is led by an Executive Director.

The Manitoba Gaming Control Act requires and permits the MGCC to:

- License specific gaming activities in keeping with the Criminal Code (Canada), such as bingo, breakopen tickets, raffles, and sports draft lotteries;
- Register Manitoba Lotteries Corporation (MLC) employees, suppliers, gaming equipment and Video Lottery Terminal (VLT) Agreements;
- Establish, monitor and enforce technical compliance requirements for lottery schemes;
- Investigate and make orders related to patron and supplier disputes;
- Conduct hearings pursuant to the foregoing items;
- Provide policy advice to the Minister on current gaming activities and emerging issues; and
- Monitor and enforce compliance with The Act.

APPEALS AND COMPLAINTS

The Board of Commissioners, in its legislated quasi-judicial capacity, conducts hearings and makes rulings on appeals and complaints. In this role, a quorum of members, presided over by a chairperson, receives and considers all evidence presented. Hearings are open to the public, although the hearing or portions of the hearing, may be closed in instances where financial, private or proprietary information is being presented.

During 2002-2003, seven hearings were conducted, including three hearings via telephone to accommodate remote appellants. As a result, five decisions were upheld, one decision was overturned and one employee terminated employment

prior to the Board of Commissioners announcing their decision. Appeals of the Board of Commissioners' decisions may be made to the Court of Queen's Bench under Section 45(2) of The Act. Decisions of the Board of Commissioners are available to the public.

FINANCES & RESOURCES

The MGCC is self-funding, with operating revenue derived from licensing and registration fees. The MGCC does not receive any revenue from the Provincial Consolidated Revenue Fund, nor has it contributed to the Fund. The Act permits the MGCC to establish its own bank account and operating line of credit. The annual business plan which details operational objectives and budget estimates is approved by the Minister of Finance; the year's activities are reported in the annual report to the Minister responsible for The Gaming Control Act. In the 2002-2003 business plan, the MGCC estimated operating expenses of $4,410,900; a review of the financial statements included in this report shows actual operating expenses to be $570,000 under estimate.

INTERAGENCY COOPERATION

The MGCC works closely with municipal, provincial, federal and international agencies and jurisdictions in meeting our legislative mandate. As a relatively small jurisdiction, liaison with external agencies and organizations permits the MGCC to benefit from others' experience, expertise and research pertaining to gaming regulation and related issues. Notably, during 2002-2003, the MGCC's Chief Operating Officer was elected President of the North American Gaming Regulators Association (NAGRA), the first Canadian to serve in this position. Staff members also co-chaired NAGRA's Charitable Gaming and Investigators' Committees. Membership and/or liaison with the following helped us to carry out our responsibilities:

- Addictions Foundation of Manitoba
- Canadian Gaming Regulators Association and member jurisdictions/agencies
- City Of Winnipeg, Licensing Department
- Criminal Intelligence Service (Canada and Manitoba)
- Greater Winnipeg Community Centres Council
- Manitoba Intelligence Society
- Manitoba Protective Officers Association
- Midwest Gaming Investigators and Regulators
- Municipal policing authorities
- North American Gaming Regulators Association and member jurisdictions/agencies
- Ontario Problem Gambling Research Council
- Responsible Gambling Council (Ontario)
- Royal Canadian Mounted Police
- Winnipeg Police Service

ORGANIZATIONAL CHART

Performance Reporting

FOR REPORTING PURPOSES, THE DIFFERENT OPERATING DEPARTMENTS WITHIN THE MGCC HAVE BEEN DESCRIBED INDIVIDUALLY. HOWEVER, THE NATURE OF OUR REGULATORY RESPONSIBILITIES COMMONLY REQUIRES INTER-DISCIPLINARY COOPERATION. FOR EXAMPLE, ALL DEPARTMENTS CONTRIBUTED TO THE PREPARATION OF LEGISLATIVE AMENDMENT PROPOSALS BY THE BOARD OF COMMISSIONERS; ENFORCEMENT AND LICENSING FREQUENTLY COLLABORATE WITH AUDIT ON CHARITABLE GAMING MATTERS; AND REGISTRATION WORKS CLOSELY WITH NATIVE GAMING ON FIRST NATIONS CASINO REGULATORY OVERSIGHT.

Control and regulation of gaming activities permits public confidence that charitable bingos, raffles, and all other lottery schemes are being operated honestly, with integrity, and in the public interest.

In 2002-2003, over 1,300 charitable and religious organizations held bingo, raffle and breakopen ticket events to raise money for community projects and services in Manitoba. The Licensing Department is responsible for licensing these events in accordance with Section 207 (1)(b) of the Criminal Code (Canada). Pursuant to The Gaming Control Act, Order in Council 524/1997 specifies the MGCC as an authority to issue licences to charitable or religious organizations to conduct lottery schemes if the proceeds from the lottery scheme are used for charitable or religious objects or purposes.

GOAL

To license eligible charitable organizations to conduct and manage lottery schemes in keeping with legislative and regulatory requirements and, as prescribed in licensing terms and conditions.

ACTIVITIES

- Review, process and approve or deny charitable gaming licence applications and amendments from religious and charitable organizations in keeping with legislation, regulation, and MGCC policy.
- Develop and implement licensing terms and conditions and applicable internal policies and procedures to ensure the integrity of licensed charitable activity.
- Consult and liaise with other MGCC staff on issues relating to licensing policies and procedures, including referral of non-compliance matters to Audit and Enforcement Departments.
- Communicate information effectively and consistently about licensing terms and conditions, policies and procedures to licensees, the public and MGCC staff.
- Ensure consistent application of policies and procedures and monitor their effectiveness.
- Compile and maintain ongoing statistical information for trend analyses and reporting purposes.
- Maintain and coordinate an effective records management system including archiving historical documents and ensuring they are secure and accessible for future reference.

ACHIEVEMENTS

- Released new Raffle Terms & Conditions and supporting information materials pursuant to the recommendation and review process completed in 2001-2002.

LICENSING TERMS AND CONDITIONS

All charitable gaming activities licensed by the MGCC are governed by terms and conditions specific to each gaming activity. There are terms and conditions for raffles, bingos, breakopen tickets, monte carlos, calcutta auctions and sports draft gaming activities. The terms and conditions set out the requirements for such things as financial and event reporting, rules of play, expense or prize limits, and procedures for the awarding of prizes, among others. These terms and conditions are then supported by written internal policies which guide MGCC staff in applying the terms and conditions. They provide criteria for assessing the application of each term and condition to the various schemes and gaming activities.

LICENCES ISSUED

1,311 gaming licence applications were reviewed and approved during 2002-2003.

- 952 ongoing licence renewals: 533 bingo, 394 breakopen, and 25 media bingo events
- 359 limited series or single event licences: 241 raffle, 47 bingo, 37 breakopen, 23 calcutta, 9 monte carlo, and 2 sports draft events
- Of the 1,311 total licences issued, 148 were 'recreational'. The MGCC does not require organizations to submit financial reports for those kinds of events because, as intended, the prizes or revenues are minimal.

- Developed and issued new applications and guides to support implementation of the new Raffle Terms and Conditions.
- Streamlined administrative procedures to enhance internal efficiencies and improve customer service.
- Entered and maintained data from approximately 3,650 financial reports submitted by licensees (approximately 3,300 quarterly financial reports and 350 limited series financial reports).
- Participated in the Board of Commissioners' Charitable Gaming Committee's review of Bingo and Breakopen Terms and Conditions. This included: providing advice, information and support to the Board of Commissioners; coordinating and presenting staff advice and recommendations; compiling jurisdictional research; coordination of provincial community consultations; and consultation on new terms and conditions.

Issued three licences for 'lottery schemes in a public place of amusement' pursuant to Section 207 (1)(d) of the Criminal Code (Canada) held by amusement operators during the summer fairs and festivals held throughout the province.

During 2002-2003, charitable organizations reported that Manitobans spent $97.3 million on 1,163 charitable gaming events licensed by the MGCC. Profits from these popular fundraisers benefit communities and organizations throughout Manitoba. The members of the MGCC's Audit Department are responsible for ensuring the sales, prizes, expenses and profits from these events are properly recorded, accounted and distributed for charitable or religious purposes as required by the Criminal Code (Canada).

GOALS

To provide reasonable assurance to the MGCC, the government and the general public that all MGCC licensee lottery revenues and expenses have been recorded and reported in accordance with the terms and conditions for licences.

To ensure the earnings generated from licensed lottery schemes are disbursed in accordance with the profit objectives specified in the original licence application.

ACTIVITIES

- Review all financial information received from charitable licensees within 90 days and First Nations Gaming Commissions' (FNGC) audits within 60 days of receipt.
- Provide education, training, and support to all charitable licensees and FNGC members and staff.
- Provide advice and assistance to other MGCC departments in support of their work with charitable licensees and FNGCs.
- Provide advice and assistance to all licensees requesting help and guidance.
- Conduct annual review of on-going charitable organizations prior to the expiry of the licence.
- Identify and document shortcomings in submitted financial information and/or contravention with licensing terms and conditions.
- Recommend remedies for shortcomings. Work with Enforcement Department to implement recommendations and monitor compliance with remedies and licensing terms and conditions.
- Refer all matters of a potentially fraudulent nature to the Enforcement Department.

ACHIEVEMENTS

- Cursory review of approximately 3,630 financial reports pursuant to standard audit requirements and MGCC standards and procedures.
- Annual review of approximately 500 licensed organizations seeking to renew their lottery licences.
- Documented concerns identified through these reviews resulted in 25 audit referrals and investigations; all were successfully concluded. These referrals resulted in enhanced financial reporting, record keeping, and improvements in cash controls on revenues and disbursements by licensed charitable organizations.

NEW AUDIT RISK MODEL

The MGCC's Audit Department developed and implemented a new financial review process to assess and identify areas of risk to the integrity of licensed gaming. This new model permits the MGCC to apply the resources of the audit team where they are most needed. The model was designed as part of an overall compliance strategy to:

- Increase the level of assurance that MGCC terms & conditions are being adhered to; and
- Improve the probability of detecting breaches of the terms & conditions by focusing audit resources on organizations identified as posing a risk to the honesty and integrity of game operations.

Highlights of the new model include:

- A cursory review of each financial report submitted, with immediate follow up on outstanding items;
- The application of audit standard profiles to assess each organization's overall perceived risk; and
- A review of each file based on assigned risk level factors including internal controls, cash handling procedures, segregation of duties and disbursement of profits.

MANITOBA GAMING CONTROL COMMISSION
CHARITABLE GAMING
FISCAL YEAR 2002/03 ($ MILLIONS)

Event Type	Licensed Events		Gross Revenue		Prizes Paid		Total Expenses		Net Profit	
	02/03	01/02	02/03	01/02	02/03	01/02	02/03	01/02	02/03	01/02
Bingo	484	510	$ 78.5	$ 79.7	$ 59.3	$60.8	$ 9.3	$ 9.4	$ 9.9	$ 9.5
Breakopen	404	429	$ 9.7	$ 11.1	$ 6.8	$ 7.7	$ 0.9	$ 1.0	$ 2.0	$ 2.4
Raffle	241	172	$ 9.0	$ 12.7	$ 3.4	$ 5.4	$ 1.6	$ 2.7	$ 4.0	$ 4.6
Other	34	24	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ -	$ -	$ -	$ -
Totals	1163*	1135	$ 97.3	$103.6	$ 69.6	$74.0	$ 11.8	$13.1	$ 15.9	$16.5

* In addition, there were 148 licences issued to organizations who were not required to submit financial reports or licence fees (121 bingo and 27 breakopen) and are therefore not reflected in the above chart.

EMPLOYEE REGISTRATION

Employee applicants are assessed for consideration in two categories:

- Level 1 status applicants have not declared criminal records, nor has the MGCC identified concerns during the course of the registration investigation. All Level 1 employee applications or renewals are targeted for completion within three days.
- Level 2 status applicants have declared criminal records or concerns have been identified by the MGCC during the course of the registration investigation. In-person interviews and additional investigation are pursued with these applications.

The Act requires the MGCC to use the criteria of honesty and integrity to satisfy prescribed gaming industry registration requirements for individuals, and adds the gauge of financial soundness for business entities and organizations. Accordingly, the members of the Registration Department strive to ensure these attributes apply to MLC employees and suppliers, specific suppliers to charitable event licence holders and to First Nations casino employees and suppliers. As well, the registration of VLT Siteholder Agreements between the MLC and business sites permits the MGCC to monitor compliance in keeping with public interest matters including: responsible gambling initiatives, age control and prohibition against tampering with VLT operations.

GOALS

To ensure prescribed gaming industry suppliers and employees meet and maintain the registration criteria of honesty, integrity and financial soundness.

To register VLT Siteholder Agreements to ensure compliance with Agreement terms and conditions related to game integrity and responsible gambling initiatives.

ACTIVITIES

Employee Registration

- All employee applicants are investigated according to prescribed policy in order to prevent those with serious criminal backgrounds or those who might be a detriment to the integrity of gaming operations to work in the gaming industry. Background investigation activities include review of the submitted application, reference and criminal record checks and personal interviews. Additional or exceptional investigative measures are taken as required.
- All current employees must be in good standing in order to maintain registration. As such, registration is reviewed annually, including a new background check. All consequential incidents reported by the MLC or by a current employee regarding his or her activities or behaviour, are investigated and considered in the context of registration criteria.
- Employee applicants may be denied registration; current employee registrations may be suspended if the criteria of honesty and integrity are not deemed to have been

maintained. In such circumstances, the individual may request a hearing by the MGCC's Board of Commissioners. During 2002-2003, four employee hearings were conducted.

Supplier Registration

- All suppliers, whether classified as gaming or non-gaming, are investigated according to prescribed policy prior to registration. The MGCC reviews the company and its principals, investigating the company's integrity through its corporate and credit history. Gaming suppliers undergo a full due-diligence investigation which includes interviews with the principals of the company, and criminal record and credit checks. Computer checks such as Dun and Bradstreet business reports and court record reviews further support the investigation.
- MLC purchasing records are reviewed and monitored to ensure compliance with prescribed supplier registration requirements. The MGCC reviews the MLC's purchasing records to ensure that the MLC and their suppliers comply with the regulations. Registration of current suppliers is renewed following investigation and confirmation of registration criteria.

REGISTRATION OVERVIEW

As of the end of the 2002-2003 fiscal year	March 31, 2003
MLC New Applicant Employees Registered in Fiscal Period	470
MLC Employees - Renewals/Annual Updates in Fiscal Period	1877
Aseneskak New Applicant Employee Approvals	158
Aseneskak Applicant Employee Renewals	127
MLC Current Gaming Suppliers	39
MLC Current Non-Gaming Suppliers	59
VLT Siteholder Agreements	581

VLT Siteholder Agreement Registration

- All VLT Siteholder Agreements, which are between the MLC and each VLT site, are registered. This registration permits the MGCC to monitor and ensure compliance with the Regulatory Infraction Policy, including the limit-the-view policy intended to protect minors, the Problem Gambling Assistance Program training requirements and prohibitions against tampering with the machines. This policy, detailing all infractions and recommended penalty guidelines, is provided to all siteholders and published on our website.
- All VLT siteholder applications are referred to the Field Operations Section for MGCC introduction, inspection and information regarding the terms and conditions of agreement registration.
- Agreement registration is maintained through compliance with terms and conditions. The Registration Department's responsibilities in this regard are supported by the Field Operations Section's VLT site inspection activities.

ACHIEVEMENTS

- Developed a gaming and non-gaming equipment classification list in conjunction with the Technical Integrity Department as a reference tool for the MGCC and MLC.
- Developed and implemented registration policies and procedures for Aseneskak Casino Inc.
- Completed 98% of employee registration investigations within the three day turn-around time target.
- Improved communication between the MGCC and human resource departments through the implementation of regular status meetings. Other improvements to communication and reporting requirements with stakeholders were made through regular reporting, improved written communication, and review and improvement of processes.
- Registered all VLT siteholder applications according to legislative and policy standards and in a timely manner, allowing MLC business to continue without interruption when appropriate.

MEMORANDUMS OF UNDERSTANDING

To facilitate and enhance its investigation and enforcement capabilities, the MGCC has entered into Memorandums of Understanding with other jurisdictions and agencies. These memorandums permit intelligence sharing, inter-agency cooperation and access to specified law enforcement data systems. We have reciprocal memorandums with the following agencies:

- Alberta Gaming and Liquor Commission
- Alcohol and Gaming Commission of Ontario
- Arizona Department of Gaming
- British Columbia, Ministry of Attorney General, Gaming Audit and Investigation Office
- Canadian Police Information Centre
- Illinois Gaming Board
- Nebraska Department of Revenue
- Saskatchewan Liquor and Gaming Authority
- South Dakota Gaming Commission
- State of Colorado, Department of Revenue, Division of Gaming
- Texas Lottery Commission

When the MGCC issues a licence, or registers a VLT Siteholder Agreement, gaming industry supplier or employee, it accepts responsibility to ensure that the terms of licensing and registration are met and maintained. By far, the majority of MGCC licensees and registrants comply with the terms of their licence or registration. However, the MGCC must be vigilant in ensuring that gaming activity is, and continues to be, conducted honestly, with integrity and in the public interest. As such, the Enforcement Department, through its Field Operations Section, is key to monitoring compliance, identifying irregularities and investigating suspected or alleged fraud.

GOALS

To ensure compliance with the gaming legislative and regulatory requirements, the terms and conditions of licensed lottery schemes and with the MGCC's VLT Regulatory Infraction Policy.

To ensure that all gaming activity is conducted honestly, with integrity and in the public interest through inspections and comprehensive investigations of all complaints, patron disputes and referrals.

ACTIVITIES

- Conduct random proactive inspections in accordance with established standards.
- Conduct investigations as a result of irregularities identified during random proactive inspections and referrals from other MGCC departments.
- Conduct inspections and investigations as a result of player/public complaints, patron disputes and referrals from the MLC, Western Canada Lottery Corporation (WCLC) and other gaming jurisdictions, and in support of law enforcement agencies.
- Maintain and enhance proactive and responsive strategic standards for inspection and investigation planning, implementation, evidence documentation and conclusion.
- Develop and implement standard compliance practices, policies, and procedures for inspection and investigation activities based on licensing and registration terms.
- Identify and document irregularities for further action by Audit, Field Operations, or for referral to the Executive Director.
- Document and compile evidence for submission to a hearing of the MGCC Board of

Commissioners or to policing authorities.

- Provide consultative support to other MGCC department staff and gaming agencies.
- Liaise with charitable organizations, MGCC registrants, MLC, WCLC, other gaming agencies and jurisdictions, and law enforcement agencies.

ACHIEVEMENTS

- Conducted 661 random proactive inspections of charitable licensee events and VLT site operations.
- Conducted 187 investigations.
- Resolved the majority of issues that prompted the investigations. MGCC inspectors, working closely with licensees, registrants and members of other MGCC departments usually remedy concerns or complaints while ensuring game integrity is maintained.
- Cases that could not be resolved by the inspectors were forwarded to the MGCC's Executive Director for his action and to the MGCC Board of Commissioners for their action.
- Illegal gaming activities are referred to the appropriate law enforcement agency for investigation. In 2002-2003 the MGCC referred six cases of alleged fraud or illegal activities to policing authorities and the Crown for their review.
- Maintained regular communication with interjurisdictional bodies to monitor developments and emerging issues in gaming jurisdictions throughout North America, including research and expertise on regulatory enforcement practices.

The concept of technical integrity is foreign to many. The concept of fair play, however, is not. Technical integrity may best be described as ensuring fair play. As such, the MGCC's Technical Integrity Department is responsible for ensuring that the diverse games played in casinos, VLT sites, bingo halls and community clubs are fair, honest, secure, safe and auditable. Technical integrity is not a simple matter; rather it is a complex aspect of gaming control and regulation that concerns itself with everything from mechanical equipment functions, emerging technologies, game protection measures, and statistical probabilities, to game design and operation.

GOAL

To ensure that all gaming conducted and managed by the MLC and MGCC licensees has technical integrity.

ACTIVITIES

- Develop, enhance and enforce standards for technical integrity.
- Register all gaming machines, including VLTs and slot machines in accordance with standards. During the fiscal year, 502 replacement slot machines were registered and 258 slot machines were deregistered.
- Work with the MGCC licensees, the MLC, gaming suppliers, game testing laboratories and other Canadian and U.S. regulatory bodies to ensure that technical integrity standards are met and that compliance is maintained.

SPECIAL REPORT

Recognizing the important role technical integrity plays in gaming control and regulation, and to enhance the public's understanding of it, beginning on page 22 of this report features a special section focusing on game integrity and the implications of game design, technical standards, emerging technologies, game security and industry developments.

- Conduct regular technical integrity inspections on gaming equipment in use in Manitoba.
- Conduct investigations as follow-up to inspections and in response to patron complaints.
- Mediate patron disputes and oversee resolution and remedies as required.
- Conduct tests to examine the mechanical/physical integrity of gaming devices/products to ensure they cannot be tampered with or compromised and issue technical integrity approvals. In this fiscal year, there were 285 Technical Integrity Approvals issued. These included approvals for new slot machines and other electronic games, lottery schemes, breakopen tickets, table games, roulette wheels and chips, playing cards, bill validators, coin acceptors, etc.
- Oversee hardware and software upgrades for all electronic gaming equipment.
- Review new lottery schemes and new gaming technologies and apply standard tests to ensure technical integrity.
- Provide guidance and recommendations to the MLC and MGCC licensees.
- Participate in the formal process of sharing gaming intelligence with the gaming industry, other jurisdictions and policing authorities.

ACHIEVEMENTS

- Introduced comprehensive Technical Standards Document covering all aspects of electronic gaming within Manitoba.
- In co-operation with the MLC, developed a Game Protection Manual that identifies game protection techniques for all table games currently in play in Manitoba. This manual was distributed for use to the MLC and members of the Canadian Gaming Regulators Association.
- Developed a gaming and non-gaming equipment classification list in cooperation with the MGCC Registration Department to clarify supplier registration requirements.
- Conducted regular meetings, consultations and inspections with representatives from various MLC departments to monitor compliance with MGCC technical integrity standards.
- Ensured that all new technologically-based products introduced by the MLC met the highest possible standards of integrity and control through application of technical standards, testing and inter-jurisdictional comparisons.

First Nations gaming policies have been developed to create consistency in gaming regulation throughout Manitoba. Because of the nature and scope of on-reserve gaming activities, many of this Department's responsibilities are mirrored in other departments' activities. Aspects of licensing, registration, audit, enforcement and VLT and casino regulatory oversight are all captured within the Native Gaming Department's mandate.

GOAL

To work with First Nations' governments and their representatives to ensure legislative, regulatory and policy requirements for on-reserve gaming activities are met and maintained.

ACTIVITIES

- Work with Chiefs and Councils to negotiate First Nations Gaming Commission (FNGC) Agreements on behalf of the Province.
- Assist Chiefs and Councils to establish FNGC operations, budgets, licensing staff, and operational requirements.
- Conduct training sessions for all newly appointed FNGC staff, including board members.
- Conduct annual formal inspections to monitor compliance with FNGC Agreement covenants.
- Conduct ongoing operational reviews of each commission to ensure proper accounting, inventory, licensing and other procedures are followed to facilitate preparation and submission of annual independent audit.
- Receive and review annual gaming commission audits in accordance with standard audit practices, MGCC procedures and per FNGC Agreement covenants.
- Identify and help rectify deficiencies in FNGC operations.
- Monitor compliance with the MGCC's VLT Regulatory Infraction Policy.
- Investigate, document and report alleged infractions for further action and possible hearing by the MGCC's Board of Commissioners.

GAMING COMMISSION AGREEMENTS

Acknowledging self-government interests, gaming commission agreements between the Province and First Nations were negotiated beginning in the early 1990s following a period of largely unregulated activities. These First Nations Gaming Commission (FNGC) Agreements permit on-reserve governments to create charitable gaming licensing authorities in keeping with the Criminal Code (Canada). (The MGCC licenses charitable organizations located on reserves that do not have a local gaming commission.) Chief and Council are responsible for appointing a formal commission with sufficient resources to meet and maintain their community's charitable licensing needs and to ensure the covenants in the FNGC Agreement are met.

NEW INSPECTION PROTOCOLS

Formal First Nations Gaming Commissions' Inspection Program

- Every gaming commission is subject to a comprehensive standardized inspection of its entire operations on an annual basis.
- This inspection process is supported by ongoing communications, visits and supplementary training.
- A verification of compliance declaration process has been established to ensure consistency and permit performance measurement for each commission and the MGCC's responsibilities related to its FNGC Agreement.

Verification of Compliance Declaration Process

- This process ensures uniformity and consistency for all inspections and follow-up by MGCC staff.
- Compliance criteria identify areas of gaming commission operations that are inconsistent, non-compliant with agreement requirements, poorly administered or otherwise deficient. Conversely, these criteria also identify those gaming commissions that are operating successfully and within the terms of their FNGCs' Agreements.
- The verification process focuses on a variety of factors, including legal gaming status, operational evaluation, staff training, licensees, inventory, other gaming activities and equipment and an annual independent audit.
- The inspection outcome is formally reviewed and evaluated to permit MGCC staff to determine compliance status and to identify and implement remedies.
- Once the verification process has been completed and the results analyzed, MGCC staff provides guidance to individual gaming commissions to improve operations.
- Liaise with the MLC's Video Lotto Division staff to monitor and support compliance with gaming legislation, regulations and policies.
- Liaise with law enforcement personnel to support local police participation in addressing suspected illegal gaming operations and to support investigations and prosecution of criminal activity.
- Establish contact with manufacturers of bingo and breakopen product to provide them with information on federal and provincial gaming laws with respect to the sale of gaming product in Manitoba.

ACHIEVEMENTS

- Conducted 16 training sessions with FNGC board members and employees.
- Prepared and implemented a new inspections protocol for FNGC activities.
- Conducted formal inspections of nine gaming commissions.
- Conducted 32 on-site operational reviews.
- Liaised with independent auditing firms to support FNGC audit preparation and submission.
- Conducted investigative activities in cooperation with Chiefs and Councils, the MLC, policing authorities, the Office of the Auditor General of Manitoba (OAG) and consulting firms.

FIRST NATIONS GAMING COMMISSION COMPLIANCE

As of March 31, 2003

20	Gaming commissions were compliant
9	Gaming commissions were non-compliant (e.g. partial, incomplete, or outstanding audits)
2	Gaming commissions were not functioning (i.e. no board in place)
1	Gaming commission was suspended
32	**Total**

Much of the MGCC's collective advice and expertise is channeled through its Research and Communications Department. For example, policy advisory and public information activities related to First Nations casino operations, problem and responsible gambling, VLT registration, gaming investigations, audit review and licensing materials all flow through this Department. As such, staff in this Department are keenly aware of the complexities of gaming policy in Manitoba, and in other jurisdictions, and the importance of understanding and balancing the myriad perspectives on gaming, including business interests, social policy concerns, player choices and regulatory imperatives.

GOAL

To provide policy advice, conduct and compile research, and implement communications strategies in support of the MGCC's legislative, regulatory and public interest mandate.

"...staff in this Department are keenly aware of the complexities of gaming policy in Manitoba, and in other jurisdictions..."

ACTIVITIES

- Develop and implement communications strategies in support of policy implementation and maintenance.
- Conduct primary, secondary and collaborative research projects relevant to regulatory requirements, emerging issues and the public interest.
- Prepare and provide accurate and relevant information in a variety of formats to the Minister, the Board of Commissioners, management and staff of the MGCC, citizens, stakeholders and the media about the MGCC, gaming related issues, policy decisions and policy implementation.

Collective Advice and Expertise

Each of the operational departments is responsible for contributing advice, assistance and information to the Board of Commissioners, management and other departments in support of a variety of projects. During 2002-2003, this included:

- Providing research and advice in support of the Board of Commissioners' review of The Gaming Control Act and the preparation and submission of recommendations for legislative amendments to the Minister responsible for The Gaming Control Act.
- The planning, development and creation of the MGCC's new Gaming Management System (GMS).
- Implementing new Raffle Terms and Conditions.
- Reviewing and analyzing information gathered from the MGCC Board of Commissioners' Charitable Gaming Committee's community consultations for Bingo and Breakopen licensing Terms and Conditions.
- Preparing to host the North American Gaming Regulators Association Conference in Winnipeg in May 2003.
- Participating in the Office of the Auditor General of Manitoba's review of First Nations Gaming Commissions and the Dakota Tipi Special Operating Review by Deloitte & Touche LLP.
- Providing advisory and administrative support to the Province's Designate (MGCC's Executive Director) for oversight of the Comprehensive Provincial Framework Agreements for First Nations casino development and operation.

ACHIEVEMENTS

- Prepared ministerial and corporate advisory materials on current operations, policy implementation, research findings and emerging issues.
- Published 2001-2002 annual report in keeping with legislative requirement.
- Coordinated amendments and regular updates to the MGCC's website.
- Provided communications and research support on a range of issues related to the Commission's regulatory and advisory responsibilities.
- Liaised with the Addictions Foundation of Manitoba (AFM), the MLC and VLT siteholders to administer the Problem Gambling Assistance Program for all VLT sites.
- Began collaboration on development of an adolescent problem gambling research instrument with the AFM and the Ontario Problem Gambling Research Centre.
- Provided consultative, training and advisory support to other gaming corporations, agencies and social policy organizations on research and communications initiatives.

The Information Systems Department provides network administration and application development services to all departments. This Department has been integral to the development and implementation of the MGCC's new Gaming Management System (GMS) which is expected to become operational in fall 2003. This new web-based computer system will improve electronic communications within the MGCC, and in the next phase, improve electronic communications with licensees, registrants and other stakeholders.

GOAL

To provide a reliable and secure network of computers and related equipment to support all departments in achieving their goals.

ACTIVITIES

- Provide appropriate hardware and software programs and applications that permit data storage, internal and external data sharing and protect system integrity.
- Monitor and ensure applications function and make modifications and improvements as required.
- Plan and manage the inventory, purchasing and licensing control of all software.
- Provide communications support for desk phones, cell phones, voice mail and e-mail.
- Liaise with external agencies including the MLC, the Manitoba Government and other private consultants as required in relation to ongoing information technology projects.
- Manage the MGCC's web presence in accordance with internal policy and emerging public information requirements.
- Provide network security and disaster recovery through internet filtering, anti-virus protection measures, maintenance of a fire[illegible]all and through physical controls of hardware and software.

ACHIEVEMENTS

- Provided full information services to all staff with minimal disruption and no reported crashes during regular or off-hours operations.
- Developed a new database/application in preparation for GMS implementation.
- Completed upgrades to PC inventory, corporate website, firewall, web-filtering applications and disaster recovery software.
- Hired a full time application developer to assist in the GMS project and to provide support and training for the application after implementation.

Game Integrity

TO INCREASE THE PUBLIC'S UNDERSTANDING AND AWARENESS OF GAMING RELATED ISSUES, THE MANITOBA GAMING CONTROL COMMISSION (MGCC) INCLUDES A SPECIAL SECTION IN OUR ANNUAL REPORT TO HIGHLIGHT AN AREA OF THE COMMISSION'S ACTIVITIES AND RESPONSIBILITIES. LAST YEAR, WE LOOKED AT CHARITABLE GAMING; THIS YEAR, WE TAKE A CLOSE LOOK AT THE CONCEPT AND PRACTICE OF GAME INTEGRITY.

People expect that the games they play will be delivered with consistency, fairness and honesty. Public trust and confidence are key to successful operations and enjoyable gaming activities. Whether playing blackjack at a casino or bingo at a community hall, all players want to be sure that the game they play is regulated, that rules are followed and prizes paid out correctly. Gaming regulators use the term game integrity to describe the standards and measures put in place to meet players' expectations and entitlements in this regard.

There is no question that establishing and maintaining game integrity involves considerable cooperation among a number of agencies and individuals including, charitable gaming licensees, players and the general public, the Manitoba Lotteries Corporation (MLC), manufacturers, gaming operators, law enforcement agencies, testing laboratories and other regulators. Before a new game is offered for play in Manitoba, it must be approved for play by the MGCC; each game must be proven, based on specific tests and measures for fairness, honesty and accountability, to have game integrity.

WHAT IS GAME INTEGRITY?

Gaming regulators, like most specialized industries or businesses, use jargon as part of their day to day operations. The phrase game integrity, or technical integrity, is commonly understood and used by gaming regulators, operators, manufacturers, employees and suppliers. But this term, which is so important to game operations, is not commonly understood or used by players. This shouldn't be surprising, it is jargon – but within the industry, it implies a range of procedures, tests, rules and oversight.

It applies to raffle ticket design, proper storage of breakopen tickets and functionality tests on a slot machine before it goes onto a casino floor. For casinos, it includes investigation and registration of new employees, equipment and suppliers and annual review and investigation to confirm integrity and adherence to the principles of integrity and honesty. And for bingo, it involves proactive, random

"The term 'lottery scheme' is defined in s. 207(4) of the (Criminal) Code (Canada) to mean any of (a) broad range of gaming activities..."

– New Developments Concerning Gaming, Criminal Law Quarterly, Vol. 42, 1999

inspections and receipt and review of financial information. Game integrity represents a variety of standards and protocols to give players the highest confidence in the fairness of the games they decide to play, while minimizing opportunities for game manipulation and fraud.

Given the diversity of games available for play in Manitoba, it is impossible to describe or explain game integrity based on a single set of standards. The MGCC sets standards for each game's integrity based on its own components, rules for conduct and security risks. Ensuring game integrity basically involves breaking a game down, examining the gaming equipment and rules of play, identifying errors or inconsistencies and determining whether the game is fair and honest.

In setting standards to assess the technical integrity of lottery schemes, or in some cases, classes of schemes, the MGCC prescribes requirements that include: the design and concept of the scheme; the manufacture, supply, delivery, installation and maintenance of gaming equipment; methods of payout and reward; and ongoing measures to be performed to ensure that a scheme continues to be fair, honest, secure, safe and capable of being audited. The MGCC also details how an organization is to report on the performance of those measures. Depending on the scheme, this may include the submission of quarterly reports, scheduled equipment testing, regular inventory counts and annual registration review for employees and suppliers.

KEY ELEMENTS OF TECHNICAL INTEGRITY

When the MLC or a charitable organization seeks approval for a new lottery scheme, they must submit for MGCC review and approval an application detailing:

- A description of the proposed lottery scheme, including rules of play and the prize(s);
- Specifications for all gaming equipment required for the proposed lottery scheme;
- Independent laboratory reports and evaluations as required by the MGCC. This may include independent testing laboratory documentation, communication tests, live testing and evaluation and counterfeit testing;
- Samples of the physical components involved in the scheme, for example, playing cards, roulette chips and tokens;
- Documentation from other jurisdictions where the proposed lottery scheme has been approved for play; and
- Any further and other information as the Commission considers appropriate.

GOLF BALLS AS GAMING EQUIPMENT?

When a charitable organization or the Manitoba Lotteries Corporation (MLC) approaches the MGCC to approve a new lottery scheme we apply specific tests and measures to ensure appropriate technical standards are met and maintained. Sometimes, rather unique proposals are brought to the MGCC, as was the case when a charitable group was seeking a licence for a special raffle - the group wanted approval to use golf balls rolled down a hill to determine the winner of its raffle.

Rather than deny the request, the MGCC worked closely with this charity to develop specific technical integrity standards to ensure this scheme had the required technical integrity. Standards included: the height from which the golf balls had to be dropped; the device used to drop the balls; the numbering and inventory of the balls; and the exact manner in which the winners had to be declared and the prizes awarded. While this is an extreme example of game integrity, the golf ball raffle is a good example of how a lottery scheme that may at first seem unusual, can still be licensed when technical integrity standards are established and met.

A CLOSER LOOK AT GAME INTEGRITY

So far our look at game integrity has focused on general concepts. To highlight certain aspects of game integrity, we will shift our attention to specific issues related to electronic gaming, charitable gaming and table games, and highlight matters related to independent laboratory testing, prize payouts, rules and consistency, cheat-at-play, and future trends.

Electronic Gaming Devices

e.g.: Slot Machines & VLTs

Electronic gaming devices are very popular with players in Manitoba and elsewhere. Because of the nature of technological advances, player demands and the complexity of new game design, electronic gaming can pose some of the most difficult challenges for regulatory agencies today.

In Manitoba, where only the provincial government, or its agencies, can own electronic gaming equipment – primarily slot machines and VLTs - technical standards are met and maintained within a relatively constant environment. In jurisdictions where there are many private operators who purchase, own and regularly replace or update the equipment, the task can be more onerous. Nevertheless, the MGCC must ensure that all electronic gaming devices meet the laboratory and functionality standards. This includes items such as: testing game software; testing coin and bill acceptors to ensure that they only accept legitimate currency and resist illegal currency; validating payout percentages and random number generation; and examining fail safe features such as rejecting a player's currency when a malfunction is detected.

INDEPENDENT TESTING

Testing all of the components of an electronic gaming device for integrity and reliability is beyond the resources of most regulatory agencies, including the MGCC. The complexities of computer based testing and emerging game technologies have prompted many jurisdictions, including Manitoba, to use the services of independent gaming laboratories. These laboratories test the main physical components and operating software of all gaming equipment before it is introduced to the public for play. Using these services ensures that our technical testing standards, and the practical application of these standards, are always based on the newest technology and testing capabilities.

"Today, the regulation of electronic gaming machines relies on a complex integrated process that involves the cooperation of manufacturers, regulators and testing laboratories to keep every game on the casino floor operating properly and fairly."

- Global Gaming Business, June 2003

RETURN TO PLAYERS – PRIZE PAYOUTS

One of the most commonly asked questions related to game integrity involves prize payouts. Players want to make sure that they have a fair chance to win, and if they do win, that they receive the correct prize. One of the most fundamental tests that an independent lab conducts is the payout percentage return to player (RTP). Most people assume that they can estimate the RTP by simply comparing the number of games played to winnings paid. However, because slot machines and VLTs operate over many years, and many plays, the mathematics of RTP is not that simple.

To accurately measure the RTP, a slot machine or VLTs payout percentage components are sent to an independent laboratory to test and confirm that the RTP stated by the manufacturer is correct. For example, if the MLC orders a slot machine with an RTP set to 94%, the MGCC must verify that the RTP is set at 94%. Because each successive game must be independent of the last and while a particular game may average a specific return based on an extended period of time, the return over a short time-frame will vary significantly – either up or down.

This change in the percentage a game pays out over time is commonly referred to as game volatility. In more common terms – some people win and some people lose. To satisfy MGCC standards, the independent laboratory must prove that over time the machine will return to players 94% of money wagered. In order to address game volatility and permit the law of averages to come into play, the laboratory projects the outcomes of games over millions of plays by testing the software and measuring the frequency and combination of symbols used in the game.

Of course, matters of game integrity extend well beyond verifying the RTP. The MGCC must also be satisfied that a new game operates the way the manufacturer claims it is supposed to operate. To accomplish this, the Technical Integrity Department examines and tests different aspects and components of the proposed game, including:

- Functionality of games – does the game play correctly?
- Recovery procedures - will the game restart properly if communications are interrupted?
- Accounting - are all deposits, wagers and winnings properly recorded and accounted for?
- Dispute resolution - are there adequate procedures and records to resolve patron disputes?

TECHNICAL INTEGRITY APPROVAL

Once testing and verification is complete, the MGCC issues technical integrity approval for the game; this approval is required before a game is offered to the public for play. This permits the MGCC to monitor the status of gaming equipment, maintain records on game function and assists in the conduct of any investigations resulting from public complaints or operational concerns.

Table Games

Games such as poker, roulette and blackjack have existed for hundreds of years in one form or another. Unfortunately for regulators, operators and players, methods for cheating at these types of games have existed for similar periods of time.

Ensuring the game integrity of table games is a coordinated effort and communication between regulators and casino operators is vital. The MGCC approves all the equipment that is used in playing table games. In order to accomplish these approvals, the MGCC creates standards for each piece of gaming equipment. Consistent gaming standards make it easier to detect and stop pieces that have been tampered with from being introduced into the games.

VALUE CHIPS AND TOKENS

One of the best examples of the steps that are taken to ensure consistent game integrity is the attention paid to the production and safeguarding of the value chips or tokens used in table games. Chips and tokens are legal tender within a casino. Because they act as currency, methods for detecting and preventing the introduction of illegal, or counterfeit chips, is essential to maintaining the integrity of table games. Regulators and operators rely on consistent materials and technology to ensure that the integrity of casino chips and tokens is maintained. The need for high-tech chips and tokens has led to a system of production whereby these items must be minted in a similar manner to regular currency. Details of minting processes are proprietary; maintaining the security of these processes is critical to preserving their integrity.

RULES AND CONSISTENCY

Unlike the operation of electronic gaming devices, which can be programmed to operate in a certain way, table games are conducted by humans. As with the equipment used in a game, consistent rules for the game's operation must be established before it can be introduced to the public for play. The MGCC approves the rules of play for all table games in the province. This function is especially important when casino operators intend to introduce a new table game. The operator proposing the table game must submit the rules and description of the game, including: a description of how the game is played; betting limits; how prizes are paid out; and a list of other jurisdictions where the game has been approved for play. The MGCC then researches and examines the game to ensure that it will operate in a fair and consistent manner. If necessary, changes to the rules and procedures may be made to ensure that game integrity is established and maintained.

CONSISTENCY IN GAME PLAY

Game integrity standards focus to a large extent on consistency in game play. The importance of consistency is viewed from two perspectives:

1. A consistent game ensures players know what to expect, sets out the rules and gives them confidence in the game; and
2. A consistent game makes it easier to detect irregularities in the games. These irregularities may be the result of malfunctions in the game itself, or manipulation by those attempting to cheat.

Charitable Gaming

"...it is lawful for a charitable or religious organization, pursuant to a licence issued by the Lieutenant Government in Council of a province or by such other person or authority in the province as may be specified...to conduct and manage a lottery scheme in that province if the proceeds from the lottery scheme are used for a charitable or religious object or purpose..."

In Manitoba, the MGCC, under the authority of The Gaming Control Act and Regulations licenses charities to conduct lottery schemes, including bingo, breakopen tickets, raffles, calcutta auctions, monte carlo and sports draft activities. These activities are popular pastimes and good fundraisers. In 2002/03, charitable gaming sales revenues from these events topped $97 million. In addition to authorizing the lottery schemes and monitoring the conduct of these events, the MGCC also reviews financial and audit information to confirm the revenues are used for charitable or religious purposes in keeping with the Criminal Code (Canada).

As demonstrated by the golf ball raffle, there are many kinds of games and many ways of conducting them. There are equally as many sets of standards that apply to each game and its operation. For example, all breakopen tickets must be developed, printed and distributed in accordance with the MGCC's technical integrity standards. There are specific requirements for the design of raffle tickets, including matching ticket numbers to confirm authenticity and identification. Bingo paper must be inventoried and securely stored. And raffle draw procedures must be established and followed to ensure the prizes are awarded fairly and as intended. The MGCC has established specific terms and conditions for each licensed event; copies are available on the MGCC's website at www.mgcc.mb.ca or by contacting us at 1-800-782-0363, or in Winnipeg at 954-9400.

Because bingo is the most popular game, we have chosen to focus on the game integrity standards and tests that apply to its approval, operation and audit reporting.

BINGO – UNDER THE I FOR INTEGRITY

This year approximately 600 charitable bingo licensees will hold over 30,000 bingo events in Manitoba. Each of the players at each of these events expects fair play, consistency and game integrity. The MGCC needs to ensure that all organizations consistently meet and maintain game integrity standards at every event.

Each organization's bingo licence includes terms and conditions which outline standards for the conduct and management of the bingo game. Many of the terms and conditions for bingo establish requirements to ensure game integrity. Here are several examples of game integrity based rules:

- MGCC has established basic rules of play for bingo that must be followed by all licensees.
- MGCC reviews and approves specific rules of play, sometimes called "house rules", set by each organization.
- Bingo paper must be purchased from the MLC to ensure accountability and auditability. This permits tracking of bingo product purchase and sales for audit purposes. A single source supplier model also ensures consistent product, including a serial number on each sheet of bingo paper sold.
- All licensees are urged to use the master control books for MLC bingo paper to compare the serial number on each winning bingo sheet with a master sheet. This helps detect attempts at cheating and protects the licensee and other players.

At the conclusion of each event, the organization must also complete an event report, detailing sales, prizes and expenses. This information must be compiled into a quarterly report along with financial records and submitted to the MGCC for review. The MGCC has developed an audit risk model to help identify reporting inconsistencies, remedy problems, detect fraud and support any required investigations.

Cheating

By placing controls on the manufacture and distribution of gaming equipment like bingo paper, breakopen and raffle tickets, establishing consistent rules and setting audit standards, the MGCC is ensuring that the gaming experience for the patrons of these games has the highest level of integrity possible. However, the MGCC is aware that attempts at fraud and cheat-at-play tactics can occur.

FRAUD DETECTION

In the absence of high-tech surveillance equipment that protects larger commercial operations, the public – familiar with game consistency – often acts as eyes and ears in monitoring regular activities and in identifying and reporting suspicious activities at charitable gaming events. Fraud at charitable gaming events is usually discovered in one of two ways:

1. Information or complaints from players, current and former employees of licence holders; and
2. Discovery through the MGCC's proactive scrutiny of organizations by our auditors and inspectors.

More than half of all gaming fraud discoveries are uncovered as a result of tips and complaints. Complaints may be registered with the MGCC by calling 1-800-782-0363, in Winnipeg at 954-9400, or emailing us at complaints@mgcc.mb.ca

Whether at a community hall or in a casino, unfortunately, there are some people who try to improve their chance of winning by cheating. Guarding against gaming patrons who engage in cheat-at-play tactics is vital to assuring that other players do not have their gaming experience undermined.

We have already touched on some examples of methods for limiting cheat-at-play opportunities, including: rules for storing bingo paper and the printing of raffle tickets; restricting operators to using products from one company; and setting standards for gaming equipment like electronic gaming devices, playing cards, chips and tokens.

Having consistent equipment and procedures is only half the battle in combating cheat-at-play tactics. Communication is especially important in table games due to the increased human component of the games. The presence of dealers and multiple players all interacting in a single game increases the chances to compromise game integrity. While it may seem unusual, proactively in 2002, the MGCC researched and developed a Game Protection Manual that details cheat-at-play tactics used in table games and outlines preventative measures to combat these tactics. This internal document was developed with the help of the MLC and shared with regulators and security personnel in many jurisdictions to help ensure that all table games under their operation are conducted in a fair and consistent manner for all patrons.

Inter-agency cooperation amongst different jurisdictions permits tracking of new cheat-at-play tactics related to all types of games operating in the province and permits the development of proactive detection measures to protect game integrity in Manitoba.

INTEGRITY: "...WHOLENESS; COMPLETENESS ...SOUNDNESS; UNIMPAIRED OR UNCORRUPTED CONDITION."

New Technology

While technological advances in games offered for play, especially electronic games, can result in more enjoyable options for the gaming patron, regulators are presented with numerous challenges to ensure that technological advances do not come at the expense of game integrity.

One of the newest technologies gaining widespread appeal is the advent of cashless gaming. Instead of paying players with coins from a hopper, cashless gaming machines, also called ticket-in/ticket-out (TITO) systems, dispense a ticket that can be played in other coinless gaming machines or exchanged for cash. From a marketing perspective, the popularity of TITO technology should come as no surprise as it allows players to move from one machine to the next without having to carry coins or tokens. From an operational standpoint, TITO cuts down on the amount of cash that a casino has to have on its gaming floor and limits the personnel who are required to handle cash.

From game integrity standpoints however, the introduction of cashless gaming created the need for an entirely new set of technical standards to safeguard TITO machines from cheat-at-play tactics and ensure operational consistency. The tickets printed by TITO machines function as a transferable form of currency within a casino and adequate measures to maintain consistency and guard against tampering are fundamental. The physical aspects of the tickets need to have standards developed. Using high quality paper and ink from a single supplier in the printing process and bar coding methods to validate ticket authenticity is one example of the security features that must be employed. The printers inside each gaming machine and the ticket validators that read and process the tickets from machine to machine must be resistant to tampering. Finally, the central systems that track transactions and payout percentages often need to be reconfigured and retested to ensure that the TITO technology allows for the same audit procedures that are in place for cash based machines.

As with many aspects of the modern world, technological advance and change have become the norm. MGCC management and staff are committed to ongoing training and professional development to sustain and enhance our knowledge of new and emerging technologies and to understand the implications for game integrity in Manitoba.

A FINAL COMMENT

The pursuit of game integrity is at the forefront of the MGCC's regulatory mandate. Ensuring game integrity is a constant challenge. As new games are introduced and old games revamped, the standards and procedures that apply to all of these games must be proactively refined and updated. As such, the MGCC continues to refine its standards and procedures aimed at ensuring and maintaining game integrity.

This special section illustrated some of the many variables that are considered and addressed to ensure that players can have confidence in the integrity and fairness of the games in which they choose to participate.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

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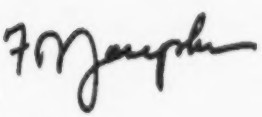
Management Report

The Management of the Manitoba Gaming Control Commission is responsible for the integrity, objectivity and reliability of the financial statements, accompanying notes and other financial information in the annual report which it has prepared.

Management maintains internal control systems to ensure that transactions are accurately recorded in accordance with established policies and procedures. In addition, certain best estimates and judgments have been made based on a careful assessment of the available data.

The financial statements and accompanying notes are examined by the Auditor General for Manitoba, whose opinion is included herein. The Auditor General has access to the Board of Commissioners, with or without Management present, to discuss the results of their audit and the quality of financial reporting of the Commission.



FJ.O. Josephson
Executive Director

Dale Fuga
Chief Operating Officer

June 6, 2003

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITORS' REPORT

To the Legislative Assembly of Manitoba, and
To the Board of Commissioners of the Manitoba Gaming Control Commission:

We have audited the balance sheet of the Manitoba Gaming Control Commission as at March 31, 2003 and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Manitoba Gaming Control Commission as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2002 were audited by other chartered accountants who expressed an opinion without reservation on those statements in their report dated May 30, 2002.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
June 6, 2003

Manitoba Gaming Control Commission

Balance Sheet

March 31

	2003	2002
ASSETS		
Current Assets		
Cash	$ 206,667	$ 179,931
Short-term investments (Note 2b)	2,548,962	2,903,982
Accounts receivable (Note 3)	35,742	65,507
	2,791,371	3,149,420
Long Term Receivable – Province of Manitoba (Note 6)	89,825	89,825
Capital Assets (Note 4)	644,727	552,912
	$ 3,525,923	$ 3,792,157
LIABILITIES AND SURPLUS		
Current Liabilities		
Accounts payable and accrued liabilities	$ 343,588	$ 438,395
Deferred revenue (Note 5)	1,206,529	1,196,640
	1,550,117	1,635,035
Provision for employee severance benefits (Note 6)	153,201	143,705
Deferred lease inducements (Note 7)	48,125	58,625
	1,751,443	1,837,365
Surplus	1,774,480	1,954,792
	$ 3,525,923	$ 3,792,157

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements.

Manitoba Gaming Control Commission

Statement of Operations and Surplus

for the year ended March 31

	2003	2002
Revenue		
Registration fees	$ 2,286,281	$ 2,250,727
License fees	1,310,676	1,386,668
	3,596,957	3,637,395
Expenses		
Salaries and benefits	2,481,039	2,338,617
Legal and professional fees	308,650	78,774
Other expenses (Note 8)	266,132	308,221
Amortization	191,951	89,429
Rent	149,788	140,202
Transportation	124,306	131,837
Commission Board	121,278	73,112
Communications	98,451	82,074
Supplies and services	67,763	63,343
Accommodations	31,563	41,978
	3,840,921	3,347,587
Income (loss) before other items	(243,964)	289,808
Other Items		
Other income	10,612	25,721
Interest income	53,040	72,143
	63,652	97,864
Excess (deficiency) of revenue over expenses	(180,312)	387,672
Surplus, beginning of year	1,954,792	1,567,120
Surplus, end of year	$ 1,774,480	$ 1,954,792

The accompanying notes are an integral part of these financial statements.

Manitoba Gaming Control Commission

Statement of Cash Flows

for the year ended March 31

	2003	2002
Cash Flows from Operating Activities		
Excess (deficiency) of revenue over expenses	$ (180,312)	$ 387,672
Items not involving cash		
Amortization of capital assets	191,951	89,429
Amortization of capital assets related to the Commission Board	4,459	2,077
	16,098	479,178
Changes in non-cash working capital balances		
Accounts receivable	29,765	(19,734)
Long Term Receivable – Province of Manitoba	0	11,704
Accounts payable and accrued liabilities	(94,807)	145,805
Deferred revenue	9,889	33,905
Provision for employee severance benefits	9,496	12,540
	(29,559)	663,398
Cash Flows from Investing Activities		
Purchase of capital assets	(288,225)	(240,514)
Cash Flows from Financing Activities		
Deferred lease inducements	(10,500)	(10,500)
Increase (decrease) in cash and cash equivalents during the year	(328,284)	412,384
Cash and cash equivalents, beginning of year	3,083,913	2,671,529
Cash and cash equivalents, end of year	$ 2,755,629	$ 3,083,913
Represented by		
Cash	$ 206,667	$ 179,931
Short-term investments	2,548,962	2,903,982
	$ 2,755,629	$ 3,083,913

The accompanying notes are an integral part of these financial statements.

Manitoba Gaming Control Commission

Notes to Financial Statements

for the year ended March 31, 2003

1. NATURE OF BUSINESS

The Manitoba Gaming Control Commission was established by The Gaming Control Act. The organization's objectives are to regulate and control gaming activity in the province with the aims of ensuring ' at gaming activity is conducted honestly, with integrity and in the public interest. The organization began its operations on October 20, 1997.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

b. Short-Term Investments

Short-term investments are carried at cost, which approximates market value. Funds available for short-term investment are invested with the Province of Manitoba, in accordance with Section 55(7) of The Gaming Control Act.

c. Financial Instruments

The organization's financial instruments consist of cash, short-term investments, accounts receivable, and accounts payable. Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest, currency or credit risks arising from these financial instruments.

d. Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated as follows:

Equipment
20% declining balance basis

Furniture and fixtures
10% declining balance basis

Computer equipment
30% declining balance basis

e. Revenue Recognition

Revenue and expenses are recorded on an accrual basis except for license and supplier registration fees, which are recognized on a cash receipt basis.

f. Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. ACCOUNTS RECEIVABLE

	2003	2002
Trade	**$ 2,723**	$ 14,056
Manitoba Lotteries Corporation	**20,086**	38,518
Employee Advances	**12,933**	12,933
	$35,742	$65,507

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Equipment	$ 65,453	$ 36,506	$ 28,947	$ 25,057
Furniture and fixtures	295,769	125,256	170,513	189,459
Computer equipment	840,742	395,475	445,267	338,396
	$1,201,964	$ 557,237	$ 644,727	$ 552,912

5. DEFERRED REVENUE

Deferred revenue consists of registration fees received to be recognized as revenue in the year in which the related expenses are incurred.

6. PROVISION FOR EMPLOYEE SEVERANCE BENEFITS

Effective April 1, 1998, the Commission commenced recording the estimated liability for accumulated severance pay benefits for certain of its employees. The amount of this estimated liability is determined using the method of calculation set by the Province of Manitoba.

Severance pay, at the employee's date of retirement, will be determined using the eligible employee's years of service and based on the calculation as set by the Province of Manitoba. The maximum payout is currently 23 weeks at the employee's weekly salary at the date of retirement. Eligibility will require that the employee has achieved a minimum of nine years of service and that the employee is retiring from the Commission.

The Province of Manitoba has accepted responsibility for the severance pay benefits accumulated to March 31, 1998 by the Commission's employees. Accordingly, the Commission recorded a receivable of $146,079 from the Province of Manitoba, which is an amount that is equal to the estimated liability for accumulated severance pay benefits at March 31, 1998. There are no specific terms of repayment for this receivable.

7. DEFERRED LEASE INDUCEMENTS

The organization has received lease inducements in the form of a rent-free period of approximately ten months. The benefits arising from these lease inducements are amortized over the term of the lease on a straight-line basis as reductions of rental expense. Rental expense has been reduced by $10,500 for the period ending March 31, 2003 ($10,500 in 2002) and an annual reduction in rental expense of approximately $10,500 is expected for the years 2004 through 2007.

8. OTHER EXPENSES

Other expenses include the First Nations Implementation Team expenses of $44,642 ($143,137 in 2002).

9. COMMITMENTS

The organization has an operating lease for its premises at $12,094 per month, under a lease expiring in 2007.

The minimum annual lease payments for the next four years are as follows:

2004	$ 145,125
2005	145,125
2006	145,125
2007	145,125

10. ECONOMIC DEPENDENCE

A substantial portion of the organization's total revenue is derived from Manitoba Lotteries Corporation in the form of registration fees.

11. PENSION PLANS

Substantially all of the employees of the Commission are members of a Money Purchase Pension Plan ("the Plan"), which is a defined contribution pension plan available to all eligible employees of the Commission. Upon retirement, plan members will receive benefits based on contributions made to the Plan during the employees' years of service.

The remainder of the employees are members of the Province of Manitoba's defined benefit Superannuation Pension Fund ("the Fund"). Variances between actual funding estimates and actual experience will be revealed in future valuations which may require an increase in the funding contribution rates.

The Commission matches employees' current pension contributions to both plans. As a matching employer, the Commission discharges its pension liability on a current basis and, therefore, has no additional pension obligation.

The Commission's portion of contributions to these plans is recognized as operating expenses in the period of contribution. Total contributions for the year are $80,946 ($60,597 in 2002).

12. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the financial statement presentation adopted in the current year.

Manitoba Gaming Control Commission

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Manitoba Gaming
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